ECONOMIC UPDATE
REGIONS
February 17, 2022

January Residential Construction: Supply Backlog Continues To Build

- Total housing starts fell to an annualized rate of 1.638 million units; total housing permits rose to an annualized rate of 1.899 million units
- Single family starts fell to 1.116 million units and single family permits rose to 1.205 million units (seasonally adjusted annualized rates)
- Multi-family starts fell to 522,000 units and multi-family permits fell to 694,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annualized rate of 1.638 million units in January, below the consensus forecast of 1.695 million units and well short of our forecast of 1.733 million units, while total housing permits rose to an annualized rate of 1.899 million units, a bit higher than our forecast of 1.844 million units and far above the consensus forecast of 1.750 million units. Single family starts came in much lower than our forecast anticipated, accounting for most of our miss on our forecast of total starts. Some of this can be accounted for by harsh winter weather weighing on starts, but we think the bigger factor was intensifying supply chain issues that have hamstrung construction, particularly single family construction, over the past several months. While many builders imposed stricter caps on sales in January to focus on working down backlogs of unfilled orders, intensifying supply chain constraints frustrated their efforts to do so. One manifestation of this is that the number of single family units permitted but not yet started rose further in January, as did the number of single family units under construction. While there are signs that supply chain/logistics bottlenecks in the industrial sector have started to clear, there has been no such progress in the housing market. At a time when the prospect of a sustained increase in mortgage rates has drawn fence sitters into the market, this means that the supply/demand imbalance in the single family segment of the market will become even more pronounced.

On a not seasonally adjusted basis, there were 117,600 total starts in January, below our forecast of 123,700 starts. Single family starts fell from 81,700 units in December to 76,600 units in January, the lowest monthly total since last February. Single family starts rose in the West region but fell in the other three broad Census regions; steep declines in the Midwest and Northeast regions reflect weather effects, but the decline in the South could reflect this being the region in which sales caps are the most restrictive and in which supply/demand imbalances are more pressing. January is the sixth month out of the last seven in which (unadjusted) single family starts have fallen, and January's total of 46,200 single family starts in the South region is 25.4 percent below the cycle peak of 61,900 units in June. Over the past 12 months, the unadjusted data show a total of 1,123,900 single family starts, well off of the recent peak of 1,139,700 units as of August, as shown in our first chart below. Until supply side constraints, materials and labor, begin to relax, the trend rate of single family starts is likely to drift even lower.

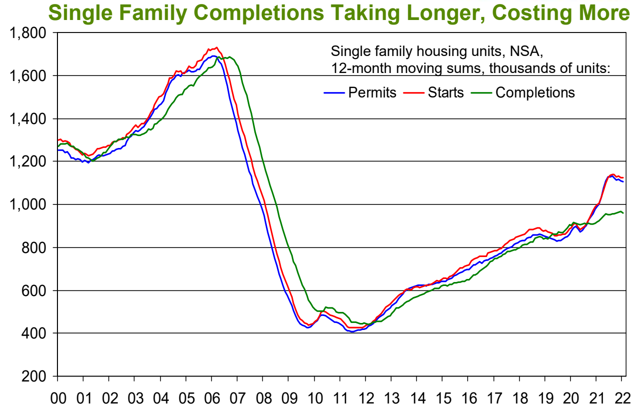
On a not seasonally adjusted basis, there were 132,500 housing units permitted in January, in line with our forecast of 132,200 units. While multi-family permit issuance fell sharply, that was expected given that December's outsized total reflected a rush to procure permits in the Philadelphia metro area ahead of the expiration of tax incentives for new multi-family construction. There were 82,700 single family permits issued in January, ending an eight-month run in which the number of single family permits was below the number of single family starts (unadjusted). That single family starts ran ahead of permits over the back half of 2021 reflected builders having imposed sales caps, which would have held down permit issuance, in order to focus on clearing order backlogs, and we think the reversal in January is more a reflection of weather having held down starts. If so, then the unadjusted data will once again show starts running ahead of permits in the months ahead.

Completions of both single family and multi-family units fell in January, with a particularly harsh decline in single family completions. Wait times on items such as cabinets, windows, and garage doors have become increasingly stretched, thus acting as a drag on the pace of single family completions. As of January, there were 759,600 single family units under construction, and in recent months that number has hovered in territory last inhabited in 2007. The 759,900 multi-family units under construction is the highest number since July 1974.

Builders have noted that they see little relief in sight from the supply side constraints that have weighed on completions. Higher mortgage rates have prompted fence sitters to jump into the market, adding to already sizable order backlogs. As such, even should demand begin to cool, builders will remain busy for quite some time to come.

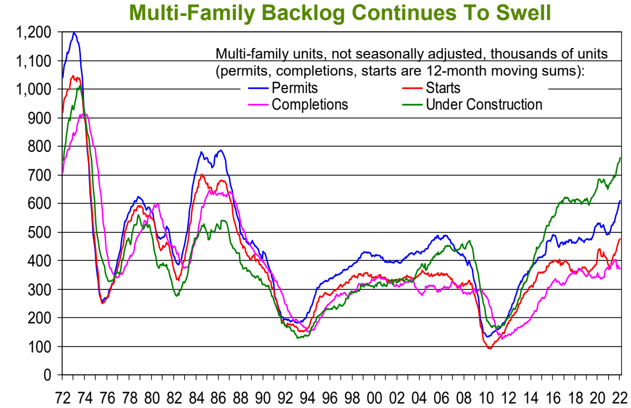
REGIONS

Single Family Completions Taking Longer, Costing More



REGIONS

Multi-Family Backlog Continues To Swell



Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com